GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2076
ANSWERED ON:29.07.2016
Service Tax on Cooperative Banks
Antony Shri Anto

Will the Minister of FINANCE be pleased to state:

(a) whether the Union Government has imposed service tax on primary cooperative banks and primary cooperative credit societies, if so, the details thereof and the reasons therefor;

(b) whether the move has badly affected the functioning of cooperative banks and credit societies, if so, the details thereof;

(c) whether the Government of Kerala has requested to exclude primary cooperative banks and credit societies from service tax; and

(d) if so, the details thereof and the response of the Union Government thereon?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI SANTOSH KUMAR GANGWAR)

(a) & (b): In the 'Negative list of services' regime, all services other than services in the negative list provided in Section 66D of the Finance Act, 1994 and services which are specifically exempted, are leviable to service tax. One of the services falling in the Negative list is the services by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount. Service tax being an indirect tax, the burden of such tax is generally passed on to the ultimate consumer and would not appear to have an adverse effect on functioning of cooperative banks and credit societies. Further, Service tax paid on input services is available as credit to service provider, for setting off the output tax liability.

(c) & (d): Government had received a request from Government of Kerala to exclude the Kerala Co-operative Deposit Guarantee Fund Board from paying Service Tax. As stated in reply to paras (a) and (b), services by way of extending deposits, loans or advances insofar as consideration is represented by interest or discount is not leviable to Service Tax. The service element associated with these activities for which any charge or amount is collected over and above the interest or discount is leviable to Service Tax. It is a conscious policy of the Government to minimize exemptions as a precursor towards GST. Exemptions break the seamless flow of CENVAT credit, lead to cascading of taxes and distort the tax structure, as credit of input taxes sticks to service provider and makes the services costly.
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